## REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON BERGRIVIER MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Bergrivier Municipality set out on pages 1 to 89, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bergrivier Municipality as at 30 June 2013, its financial performance and cash flows and the comparison of budget and actual amounts for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Restatement of corresponding figures**

7. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the current financial year in the financial statements of the municipality at, and for the year ended, 30 June 2012.

**Material losses/ impairment**

8. As disclosed in note 18 to the financial statements, the municipality has impaired its exchange receivables with an amount of R5 265 546 (15%).

9. As disclosed in note 19 of the financial statements, the municipality has impaired its non-exchange receivables with an amount of R6 676 104 (27%).

10. The municipality suffered a significant electricity loss of 10 022 999 kwh during the year under review as disclosed in note 46 to the financial statements. This represents a loss on purchases of electricity of R6 408 705 (13.24%).

**Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Unaudited supplementary schedules**

12. The supplementary information set out on pages 90 to 94 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 128 to 179 of the annual report.

15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information.*

16. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

**Material adjustments to the annual performance report**

18. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

**Compliance with laws and regulations**

19. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

**Annual financial statements**

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of service revenue, general expenditure and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving and unqualified audit opinion.

**Expenditure management**

21. Reasonable steps were not taken to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

**Procurement management**

22. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

**Internal control**

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

**Leadership**

24. A system to prevent and detect non-compliance with laws and regulations throughout the municipal environment has not been implemented.

25. A system has not been implemented whereby the annual performance report is reviewed quarterly to ensure the information reported in the annual report is in accordance with the framework

27. There was inadequate leadership oversight to ensure that plans to address previous audit findings were monitored. As a result, a number of findings recurred.

**Financial and performance management**

28. The municipality did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information and relied on consultants for the correctness of its financial statements. The financial records were

not adequately reviewed for completeness and accuracy prior to submission for the compilation of the financial statements. This resulted in material errors and omissions in the financial statements not being detected before they were submitted for audit.

Auditor-General

Cape Town

29 November 2013

AUDITOR-GENERAL
SOUTH AFRICA

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